ANNUAL REPORT

OF THE

Prince Edward Island
Land Development Corporation

Year Ending 31 March

1987

CHARLOTTETOWN, PRINCE EDWARD ISLAND

August 13, 1987

The Honourable Tim Carroll
Minister Responsible for the
P.E.I. Land Development Corporation
Charlottetown, Prince Edward Island

Honourable Sir:

In accordance with the Prince Edward Island Land Development Corporation Act, I enclose the report of the Corporation for the fiscal year ended March 31, 1987.

This statement includes the Corporation's audited financial statements for this period.

Respectfully submitted,

DIANNE BALDERSTON
Chairperson of the Board

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MEMBERS OF THE BOARD OF DIRECTORS

PRINCE EDWARD ISLAND
LAND DEVELOPMENT CORPORATION

MARCH 31, 1987

CHAIRMAN	
Mr. Leslie Underhay	Farmer, Fortune
VICE-CHAIRMAN	
Ms. Dianne Balderston	Farmer, Crossroads
SECRETARY/TREASURER	
Mr. H. Lloyd Palmer	General Manager, Land Development Corporation
MEMBERS	
Mr. Alexander Griswold	P.E.I. Department of Agriculture
Mr. William M. Jay	P.E.I. Lending Authority
Ms. Dale Dewar	P.E.I. Department of Agriculture
Ms. Alma MacLennan	Farmer, West Cape
ADVISORY MEMBER	
* Mr. John VanAbbema	Farmer Credit Corporation, Moncton, New Brunswick

* Non-Voting

THE PRINCE EDWARD ISLAND

LAND DEVELOPMENT CORPORATION

POLICY OBJECTIVE

"TO CONSERVE, DEVELOP AND ASSIST IN IMPROVING THE USE OF LAND IN PRINCE EDWARD ISLAND IN RELATION TO ITS CAPABILITY AND IN ACCORDANCE WITH THE PUBLIC INTEREST, BUT WITH A PRIMARY OBJECTIVE OF CONSOLIDATING GOOD AGRICULTURAL LANDS FOR THE PURPOSE OF INCREASING FARMER AND AGRICULTURAL SECTOR INCOME."

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

PROGRAM OBJECTIVES

The Land Development assists efficient farm land reorganization and use by:

(a) purchasing land for farm use, and

(b) assisting farmers who require land by making this land available for sale or lease on reasonable terms.

PROGRAM AREAS

The program areas established in order to carry out these objectives include:

(a) Acquisition of Land:

to acquire land by means of direct cash purchase from farmers desiring to sell their farm properties.

(b) Dispersal of Land:

the mechanisms set up for dispersal of land to farmers include:

i) Sales — through direct cash, Agreements of Sale or Mortgage

ii) Renewable five year lease arrangements with the option to purchase.

GENERAL MANAGER'S REPORT

I am pleased to present the eighteenth Annual Report of the Prince Edward Island Land Development Corporation. In the report, I will briefly highlight some of the activities of the Corporation and summarize any legislative or policy changes that have been made during the year.

Firstly, however, I would like to recognize the seventeen years of dedicated service to the Corporation by former General Manager, Stan Moore. Mr. Moore began employment with the Corporation as a Regional Land Supervisor in the first year of the Corporation's operation. He became Assistant General Manager in June 1971 and General Manager in 1975. Mr. Moore resigned November 30, 1986 to accept an appointment as Chairman of the Prince Edward Island Liquor Control Commission. His years of experience in the agricultural field, coupled with his sound judgement, has resulted in the development of a dedicated staff and an excellent rapport with the farming community.

The fiscal year 1986/87 was a year that started out very depressing for farmers. Average prices for the 1985 potato crop were far below the cost of production. The returns for these potatoes came to farmers in the fall of 1985, and the first two quarters of calendar year 1986. The prices had a depressing effect on 1986 farm income. To add to the dilemma, some producers could not find markets for all of their potatoes and, consequently, a higher percentage than normal had to be fed to livestock or buried.

At the same time, pork prices in North America were low and world grain prices affected by the E.E.C. and U.S. trade disputes fell drastically. A healthy turnaround came about in the fall of 1986 as pork prices rose to record highs, and the average prices for the 1986 potato crop, which was sold in the fall and winter of 1986 and into the spring of 1987, were well above cost of production. Grain prices, however, contined to be depressed. Beef prices took a turn for the better and efficient milk and cream producers were guaranteed a margin of profit because of the pricing structure in place.

The low potato, grain and pork prices affected the revenues and activity of the Corporation in the 1986/87 fiscal year. The number of properties purchased dropped from 49 in the previous year to 25. The total value of these properties was $1,662,155. The number of capital improvements made on LDC properties remained relatively steady at 17 for a value of $413,519 compared to 20 at $484,119 the year previous. The number of lease agreements entered into during the year, however, was the highest of the past five years at 117 with those properties valued at $3,148,816. The reason for the increase was obviously the fact that more producers, because of their financial situation, were renewing leases rather than exercising their options to purchase. This resulted in only 36 properties being sold during the year compared to 69 the year previous. The number of farmers whose purchases were financed by way of mortgages was correspondingly reduced. The total value of financing to farmers, which includes the value of leased properties, mortgages and improvements totaled $3,832,861 for the year, down somewhat from $5,372,495 in 1985/86 but on a par with the three years previous to 1985/86.

Accordingly, Accounts Receivable were at an all-time high at $3,127,123 compared to $2,558,117 in 1985/86 and $1,921,615 in 1984/85. The property held for resale was valued at $4,871,155 compared to $3,141,929 and $3,292,421 the previous two years. Upwards of 50% of this total, however, was in property where leases had expired but the farmers were still holding the land and paying lease payments, but because of lower land values, were uncertain whether to take up their options, renew their leases or give up the properties.

A detailed account of the activities is presented later in this report.

The lease rate for the first quarter of the year under review was 10.5% followed by 9.3%, 9.07% and 9.05% for the remaining quarters.

Five-year term mortgage interest rates followed Farm Credit Corporation rates which were 11% until May 19, 1986 and 10.75% to the end of the fiscal year. These rates were compounded semi-annually. Rates for longer terms were slightly higher. Some changes were made during the year which will have an effect on the activity of the Corporation in the future.

A change was made to the Act during the spring 1987 sitting of the Legislative Assembly which will allow LDC to finance properties by way of a mortgage without referring clients to other lending agencies. The Regulations to the Act were amended by Executive Council to allow all part-time farmers to be eligible to apply for LDC programs and also to allow mortgage interest rates to be the cost of borrowing to the Corporation, plus three-quarters of one percent (3/4%) rather than having the rates tied to the Farm Credit Corporation's rates.

Board policy was changed to allow all farmers to be eligible applicants. Prior to the change, only farmers with assets below certain values were eligible. The Board also changed its policy on lease rates to be charged on lease renewals. The new policy gives the farmer the option to renew at the lower of the rate in the original lease or the composite rate in effect at the time of renewal.

The Land Development Corporation was originally set up to be a vehicle to effectively bring about structural changes in agriculture, the most important of which were land consolidation, farm unit organization and farm improvements. There continues to be the need for the Corporation to provide this service at a reasonable cost to farmers and government. I am convinced that with continued fine tuning, the Corporation can continue to service the agricultural sector of the province so that the potential of the land resource may be realized thereby increasing income and employment opportunities in the sector.

In conclusion, I would like on behalf of the former General Manager, Mr. Moore, and myself, to thank the Board Chairman and other members of the Board for their co-operation throughout the year. I would also like to recognize and thank the staff for their dedication, co-operation and hard work during the year. To the Minister, the Honourable Tim Carroll and his Cabinet colleagues, I would like to convey a special thanks on behalf of the Corporation and the farming community for their support of policy changes and for their co-operation and action on amendments to the Act and Regulations which should be a benefit to the agricultural community.

Respectfully submitted,

H. LLOYD PALMER, P.Ag.
General Manager

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

STAFF

BETWEEN 1 APRIL 1986 and 31 MARCH 1987

H. Lloyd Palmer (effective December 1, 1986)	General Manager
Cynthia D. Potter (effective December 1, 1986)	Secretary to General Manager
Ernest Hudson	Regional Representative
Frank Duguay	Regional Representative
Edgar Coffin	Regional Representative
George Harris	Agricultural Technician
Leonard Keefe	Administrator (job share)
Thomas Wallis	Administrator (job share)
W. Stanhope Moore (to November 30, 1986)	General Manager
Pamela J.S. Campbell (to November 30, 1986)	Secretary to General Manager

AUDITOR'S REPORT

To the Board of Directors of the
Prince Edward Island Land Development Corporation

I have examined the balance sheet of the Prince Edward Island Land Development Corporation as at March 31, 1987 and the statement of financial activities for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations for the year then ended in accordance with the basis of accounting disclosed in Note 1 to the financial statements applied, except for the change in the method of loss recognition on leased properties described in Note 2, on a basis consistent with that of the preceding year.

J. Wayne Murphy, C.A.
Auditor General

Charlottetown, Prince Edward Island
June 19, 1987

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

BALANCE SHEET

MARCH 31, 1987

(with comparative figures at March 31, 1986)

ASSETS

	1987	1986
CURRENT ASSETS		
Cash	$ 240,136	$ 15,870
Accounts receivable — Trade - Note 3	2,091,859	2,087,262
Accrued interest	294,839	176,607
Property — held for resale - Note 10	4,871,155	3,141,929
— A.R.D.A Properties - Note 4	28,500	30,149
Mortgages and agreements of sale — Current portion	125,262	113,302
	7,651,751	5,565,119
LONG-TERM ASSETS		
Leased property — Note 5	14,669,630	15,624,872
Mortgages receivable	1,887,313	1,757,567
Agreements of sale receivable	363,960	401,021
	2,251,273	2,158,588
Less: Current Portion	125,262	113,302
	2,126,011	2,045,286
Fixed asset — Computer Equipment	11,454	11,454
Less: Accumulated Depreciation - Note 1(c)	8,639	6,115
	2,815	5,339
	16,798,456	17,675,497
TOTAL ASSETS	$24,450,207	$23,240,616

(Notes 1 to 10 are an integral part of these financial statements)

STATEMENT 1

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

BALANCE SHEET

MARCH 31, 1987

(with comparative figures at March 31, 1986)

LIABILITIES

	1987	1986
CURRENT LIABILITIES		
Accounts payable		
— Province of Prince Edward Island	$ 1,653,838	$ 1,510,059
— General	98,348	73,911
— A.R.D.A. program - Note 4	17,555	16,860
Long-term liabilities - Current portion	119,990	108,495
	1,889,731	1,709,325
LONG-TERM LIABILITIES		
Province of Prince Edward Island		
— Notes payable - Note 6	15,193,545	14,043,545
— Loans - Note 7	7,472,671	7,581,166
Less: Current Portion	119,990	108,495
	7,352,681	7,472,671
A.R.D.A. deferred profit on acquisition of properties - Note 4	14,250	15,075
	22,560,476	21,531,291
TOTAL LIABILITIES	$24,450,207	$23,240,616

(Notes 1 to 10 are an integral part of these financial statements)

STATEMENT 2

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL ACTIVITIES

YEAR ENDED MARCH 31, 1987

(with comparative figures for the year ended March 31, 1986)

		1987		1986
INCOME				
Provincial Appropriation		$ 794,926		$ 546,262
Lease income - Note 5		1,846,011		1,624,224
Interest earned		493,945		421,688
Profit (Loss) on sale of property - Note 8		48,192		(12,635)
Miscellaneous income		19,201		31,927
Land transfer income - Note 9		50		2,200
A.R.D.A. Lease income - Note 4		1,690		709
		$3,204,015		$2,614,375
EXPENSES				
Administration				
Salaries	$264,378		$254,214	
Office	16,362		14,851	
Travel	10,064		10,897	
General	15,950		13,679	
Board of Directors	7,837	$ 314,591	7,303	$ 300,944
Interest - short term		453		1,289
- long term		2,045,349		1,971,607
Bad debts		611,318		263,443
Property purchase expenses		26,349		49,274
Property maintenance		24,734		25,554
Depreciation Expense - Note 1(c)		2,524		2,264
Inventory writedown - Note 2		178,697		—
		$3,204,015		$2,614,375

(Notes 1 to 10 are an integral part of these financial statements)

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1987

1. Summary of significant accounting policies:

   (A) Net Income —
   The financial statements of the Corporation do not reflect any net income. Government policy is that the Province of Prince Edward Island will absorb the profits or losses of the Corporation in the year in which they occur.

   (B) Property —
   Leased property is valued at the lower of cost and lessee's purchase option. Land and buildings held for resale are valued at cost. It is the policy of the Corporation to recognize gains and losses on properties at the time of disposal, except that where an option to purchase has been granted below cost, the loss is recognized at the time the option is granted. Also, it is the policy of the Corporation to recognize inventory purchases and sales at the time funds are received or disbursed.

   (C) Depreciation —
   The computer is being depreciated at a rate equal to the principal reduction on the five year loan provided by the Province to finance the purchase.

2. Change in Accounting Policy
   The Land Development Corporation has changed its accounting policy on recognition of losses on leased properties. In the past, losses on leased properties were recognized in the year that the properties were sold. Losses are now recognized when a purchase option is granted at a value below the cost of the property. This policy change has been applied retroactively to the inventory of leased properties and has resulted in a reduction in inventory of $178,697. Because the reduction has been covered by appropriations from the Province in 1987, the balances of prior years have not been restated.

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1987

3. Accounts Receivable-Trade-Consist of the following:

	1987	1986
Agreements of Sale - principal receivable ..	$ 46,067	$ 38,818
Agreements of Sale - interest receivable	84,450	75,991
Mortgages - principal receivable	126,884	103,265
Mortgage interest receivable	398,477	327,494
A.R.D.A. Lease income receivable	2,820	2,987
Lease income receivable	2,458,194	1,996,827
Miscellaneous	10,231	13,235
	3,127,123	2,558,617
Less: Allowance for doubtful accounts	1,035,264	471,355
	$2,091,859	$2,087,262

The majority of Mortgages, Agreements of Sale, and Leases have March 31 as their due date.

4. Title to the A.R.D.A properties was transferred to the Corporation during the year ended March 31, 1975. This transfer was made at a nil cost to the Corporation; however, the properties were recorded at their original cost under the A.R.D.A. program. Pursuant to the Federal-Provincial Cost Sharing Agreement half of the transfer amount was reflected as payable to the Federal Government and half as deferred profit to be recognized as the A.R.D.A. properties were sold. In addition, half of any lease income earned from the properties is also payable to the Federal Government.

5. The majority of the leases are for a period of 5 years with the option to purchase at the end of the lease. The majority of the lessees in the past have exercised this option. As a result of changed economic times, there is some uncertainty whether the majority of leases in the future will continue to have their options exercised. If the lease options are not exercised, the property values may have to be reduced in order to dispose of the properties.

6. Notes Payable are renewed at the beginning of each month with the interest rate charged being the Province's short term lending rate. At March 31, 1987 the interest rate charged was 8.1%. Because the notes are not expected to be repaid in the near future, they are considered a long-term liability.

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1987

7. Loans payable — Province of Prince Edward Island, consists of $4,891,000 covered by an agreement between the Province of Prince Edward Island and the Government of Canada. Under this agreement Prince Edward Island Land Development Corporation is to make repayment in three installments — the twentieth, twenty-fifth and thirtieth anniversary dates. For the remaining loans payable, repayment is to be made on an annual basis to maturity. There are 38 separate loans with varying interest rates between 6 11/16% and 13 1/4% and maturity dates between 1997 and 2005.

8. Gains on the sale of property for the year ended March 31, 1987 was based on the following:

Sale of property during the year	$1,171,336
Less: Cost of property sold	1,123,144
	$ 48,192

9. Accumulated land transfer costs under the Land Leakage Program to March 31, 1987 totalled:

Buildings	$ 150,895
Land	5,196,391
	$5,347,286

10. Property held for resale is made up of the following:

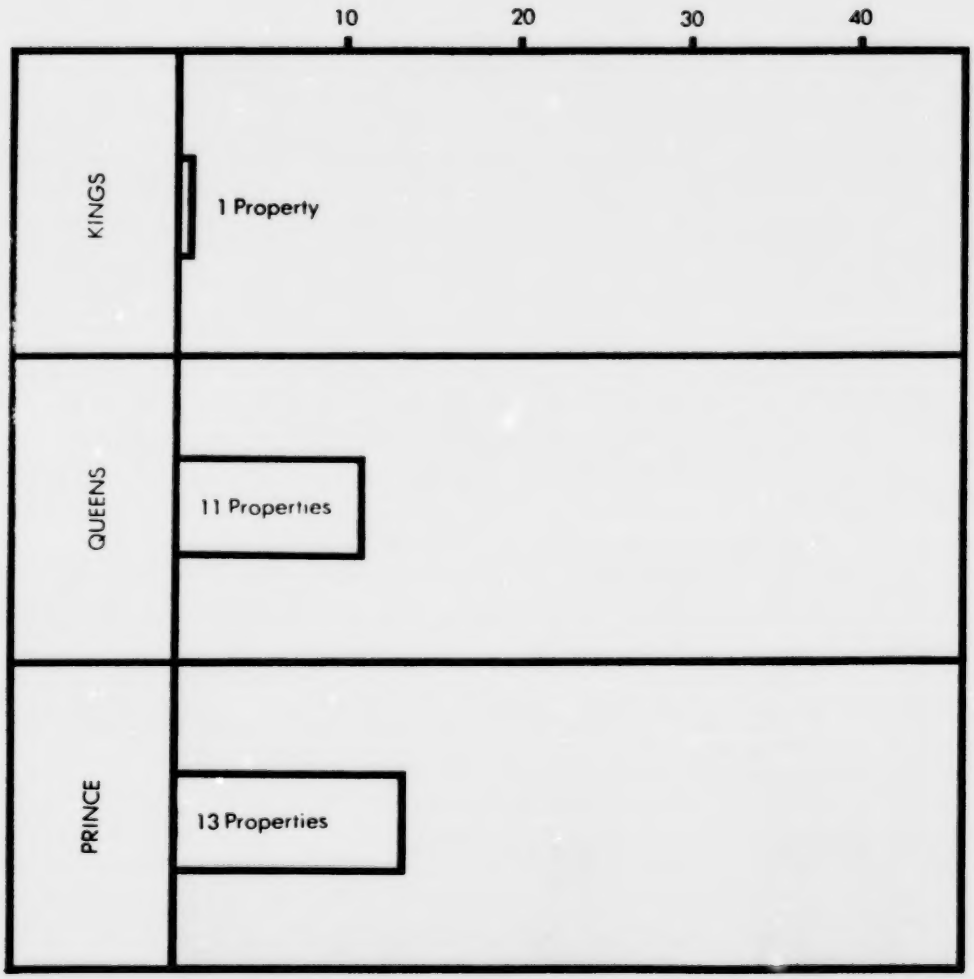
Idle Inventory	$2,006,155
Expired Leases	2,865,000
	$4,871,155

The expired leases continue to be occupied by the former lessee pending a final decision to renew the lease, exercise the purchase option or give up the lease.

1986-1987 SUMMARY OF LDC PURCHASES

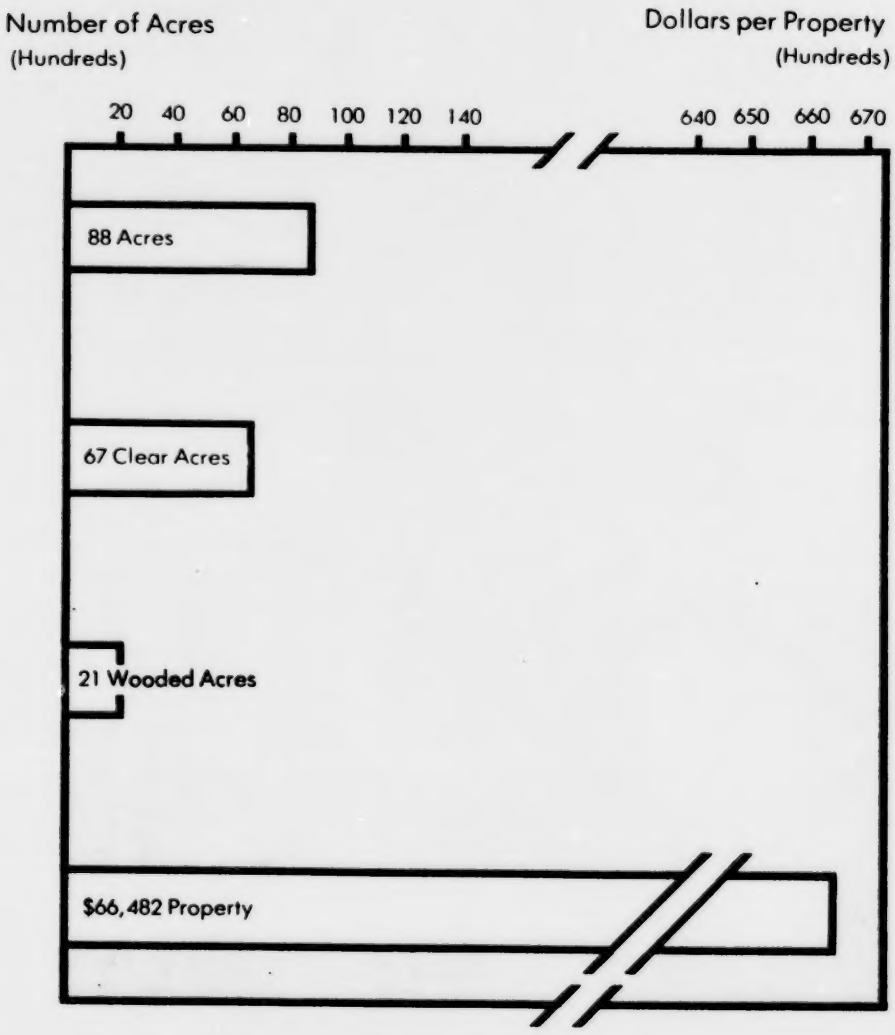
25 Properties

Number of Properties (by County)



1986-1987 SUMMARY OF LDC PURCHASES

(Average Figures)



LAND DEVELOPMENT CORPORATION ACTIVITIES — 1982-1987

	1982/83	1983/84	1984/85	1985/86	1986/87
Number of Purchases	72	40	63	49	25
Acres Purchased	5,662	4,375	6,127	5,153	2,209
Value of Purchases $	3,217,672	2,112,476	3,906,131	3,210,428	1,662,155
Number of Capital Improvements	19	18	18	20	17
Value of Capital Improvements $	206,335	566,659	168,270	484,119	413,519
Total Value Purchases & Improvements	3,424,007	2,679,135	4,074,401	3,694,547	2,075,674
Number of Lease Agreements (new & renewed)	105	88	106	106	117
Value of New Leases $	—	2,947,503	3,830,372	4,315,431	3,148,816
Number of Acres Leased	5,408	4,674	6,509	7,343	7,043
Number of Mortgages	—	—	18	15	7
Value of Mortgages $	—	306,037	395,149	572,945	270,526
Number of Properties Sold	73	99	73	69	36
Number of Acres Sold	2,360	4,349	3,343	3,903	1,792
Value of Properties Sold $	797,898	2,110,015	1,409,722	1,857,711	852,618
Value of Financing to Farmers — includes leases, mortgages & improvements	3,647,375	3,820,199	4,393,791	5,372,495	3,832,861

FINANCIAL COMPARISONS

1982-1987

	1982/83	1983/84	1984/85	1985/86	1986/87
Property Leased $	9,579,958	11,480,290	13,631,938	15,624,872	14,669,630
Property Held for Resale $	4,036,364	2,787,334	3,292,421	3,141,929	4,871,155
Total Inventory Leased & Held for Resale $	13,616,322	14,267,624	16,924,359	18,766,801	19,540,785
Mortgages & Agreements of Sale — Receivable $	1,615,117	1,700,039	1,867,292	2,045,286	2,126,011
Accounts Receivable $	1,622,984	1,562,866	1,921,615	2,558,617	3,127,123
Allowance for Doubtful Accounts $	142,380	165,020	306,281	471,355	1,035,264
Net Accounts Receivable	1,480,604	1,397,846	1,615,334	2,087,262	2,091,859
Bad Debts — Written Off	27,766	62,212	180,205	263,443	47,409

SUMMARY USE OF LANDS

(Cumulative to March 31, 1987)